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December 9, 2005

AGENDA ITEM 3b

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Revision of Equity Real Estate Leverage
- II. PROGRAM:** Real Estate – Core and Non-core Portfolios
- III. RECOMMENDATION:** To approve the reading and recommend to the Investment Committee approval of the revisions to the Statement of Investment Policy for Equity Real Estate Leverage
- IV. ANALYSIS:**

On October 17, 2005 the Investment Committee approved the Staff recommendation that the Equity Real Estate Leverage Policy add language to establish a limit of 25% of the Real Estate target allocation on recourse debt and other credit accommodations which carry a CalPERS guarantee. Staff has added language to the Leverage Policy reflecting the approved recommendation.

Additionally, Staff recommends changing the term in the policy from credit “enhancement” to credit “accommodation” to differentiate the use in the Real Estate Unit from that in the Fixed Income Unit which has a separate program providing third party credit guarantees.

Staff has included the original Pension Consulting Alliance (PCA) letter of concurrence that was presented at the October 17 2005 IC meeting when this matter was approved (Attachment 1).

See Attachment 2 for the blackline revisions to the Equity Real Estate Leverage Policy.

Staff and PCA will be available to respond to any questions of the Committee.

V. STRATEGIC PLAN:

This item supports Goal IX to achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

The additional wording will clarify existing policy to make it more reflective of portfolio preferences, market practices, to provide more flexibility in a few areas, and to enhance performance activity within the affected real estate portfolios. The Statement of Investment Policy for Equity Real Estate Leverage governs both the Core and Non Core Portfolios.

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